Senate Bill 254 Testimony
Senate Committee on Agriculture and Higher Education
201 Southeast
11:00 a.m.

Chairwoman Vinehout and Committee Members,

Thank you for allowing me the opportunity to speak to you today about Senate Bill 254. I introduced this legislation at the request of a divorced parent from the 24th Senate District to provide an income tax deduction for amounts contributed by a divorced or legally separated parent to his or her child's EdVest account.

As you may know, EdVest is a unique state-sponsored program that allows parents, aunts, uncles, grandparents, and great-grandparents to contribute towards a child's college education by placing contributions in a special trust fund. The contributions are then directed into special investment portfolios which are managed by the state. As an incentive, the program offers all of those family members a state tax deduction from taxable state income up to $3,000 per year, per child for contributions to their EdVest account.

Unfortunately, in order for a parent to be able to deduct an EdVest contribution from his or her income taxes, their child must be listed as a dependent on their tax forms. Divorced parents who are not able to claim their child as a dependent —usually as a result of a custody agreement—are therefore not able to claim the EdVest deduction. Similar problems could occur in situations where parents do not marry.

This bill would simply amend the current statute to allow all otherwise-qualified parents, not just those who are able to claim a child as a dependent for federal taxation purposes, to receive the tax deduction benefit. This will serve to reward all those who make the important decision to invest in a child's future.

The program already offers the state tax deduction for married parents, aunts, uncles, grandparents and great-parents; it is only fair to give the same opportunity to willing divorced parents.

Again, thank you for the opportunity to share my support of Senate Bill 254. I would be happy to answer any questions.

Wisconsin State Senate
24th Senate District

Serving Wood, Portage, Adams
Waushara, Marathon & Marquette

JULIE LASSA

STATE SENATOR

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Jim Doyle
Governor

Roger M. Ervin
Secretary of Revenue

Senate Committee on Agriculture and Higher Education Hearing, October 17, 2007

Senate Bill 254 – Edvest Contributions by Divorced Parents (Senator Lassa)

Description of Current Law and Proposed Change

Wisconsin allows for a deduction of $3,000 from federal adjusted gross income for contributions made to an EdVest account, a college tuition savings program, for each beneficiary if the beneficiary is one of the following: the claimant, the claimant's dependent, the claimant's grandchild, the claimant's great-grandchild, or the claimant's niece or nephew.

The bill allows the deduction when the beneficiary is the claimant's child regardless of whether or not the child is also the claimant's dependent. Thus, the bill would allow divorced parents to each claim a $3,000 deduction for an EdVest contribution for their child. The bill also limits the deduction to $1,500 for EdVest contributions for each beneficiary by married separate filers.

Fairness/Tax Equity

- The bill provides similar tax treatment for divorced, non-custodial parents as for grandparents and aunts and uncles of children regarding contributions to Edvest accounts.
- On the other hand, the total allowable deduction for contributions for a child of divorced parents would be $6,000 per year ($3,000 for each parent), whereas the total deduction allowed for contributions for married filers, whether filing jointly or separately, would be limited to $3,000 (1,500 for each married single filer and $3,000 for joint filers).

Impact on Economic Development

- By encouraging more contributions to college accounts, the bill may encourage greater college participation.

Administrative Impact/Fiscal Effect

- To the extent that allowable deductions for EdVest contributions would be restricted for married separate filers but expanded for divorced parents, the bill would increase individual income tax revenue from married separate filers while decreasing revenue from divorced filers. Because the number of divorced and legally separated tax filers contributing money to an EdVest account for their children is unknown, the fiscal effect is indeterminate.
- The department will incur $7,500 in LTE costs and $1,000 in supply costs annually under this proposal.

Prepared by: Rebecca Boldt, (608) 266-6785
October 12, 2007

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